



A few weeks ago I spoke to the Investment Marketing Forum on the current and future state of the Bay Area office market. In summary, there are 72 million square feet of vacant available office space in the Bay Area, with 46 million feet of this in San Jose. Office rents in a number of the submarkets have gone up 10 to 20 percent during the past 12 months. To see the statistics go to www.OfficeTimes.com/imfupdate.htm. As examples of falling vacancy rates, the Peninsula is down from 20 percent one year ago to 14 percent today, and most experts believe it will get down to 10 percent by the end of 2007. San Francisco CBD was 20 percent vacant, but now 9 to 12 percent. The future prognosis is slow, a steady downward trend in vacancy rates, and slow continual upward rental increase trend. Tenant improvements are expensive and will remain as such so new office construction in suburban areas need fully serviced office rents in the \$4 to \$5/rsf range to justify the \$350 to \$500/rsf construction costs. Therefore it will be a while longer until we see new development. Thank goodness for offshoring, because otherwise we'd be totally out of office space and rents would be double what they are today. Other trends: Companies aren't relocating to California because our housing is just too darn costly, but for the most part, companies aren't leaving California either. If they did most of their employees wouldn't leave and our unemployment rate is so low, it is easy to get another job. We have great weather between 9 to 10 months a year and some of the most profitable companies in the world are thriving in spite of our high costs of living. Another major trend which you will see more elsewhere on www.OfficeTimes.com is the "Green Revolution," with corporations beginning to mandate sustainability in the construction and operation of office buildings. A wealth of information about Leadership in Energy and Environmental Design (LEED) can be found at www.usgbc.org.

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Money talks ... especially in business. If a new strategy, product, or technology boosts profitability, companies not only sit up and take notice; they embrace it with open arms. "Going green is no longer just about protecting the environment or even providing a healthier and more productive workplace for employees," says Peter J. Miscovich, a principal within Deloitte Consulting LLP. "Green is also about improving the bottom line. Thus, corporations will drive sustainable practices into the mainstream, yielding tremendous environmental and social benefits while generating increased corporate profits and shareholder value." Toyota Logistics Services' new 85-acre Port of Portland vehicle distribution

center in Portland, Oregon integrated a wide variety of green design, materials, and technologies into every aspect of the buildings and site. “Wal-Mart, the largest retailer in the world, is adopting green practices, which will have a significant impact globally. Wal-Mart’s long-term environmental goals are to use 100 percent renewable energy, to create zero waste, and to sell products that sustain natural resources and the environment.” *Hemisphere* (Dec. 06) To see the complete article go to www.hemispheresmagazine.com/dec06/executivesecrets.html. We have a page of links and resources for GREEN buildings and BEST Buildings Environmentally Sustainable Techniques practices on www.OfficeTimes.com/sustainableofficebldg.htm. Please check this out and if you know of any additional great links please email them to kmoe@colliersparrish.com.

The recent Fortune Magazine’s 100 Best Companies to Work For had California leading the pack, with 13 including the #1 (Google) and #2 (Genentech) spots, followed by Texas with 11 and New York with 9. Google’s reputation is “fun and games,” with perks like free gourmet food served at 11 cafes, each serving different kinds of cuisine, snack bars stocked with an endless supply of candy and drinks are scattered around, and free access to on-site doctors, laundry machines and lots of other benefits ...

“How To Make Your Workspace Work Better” Cisco Systems found that its cubicles sat vacant 35 percent of the time and that workers come to the office primarily for meetings and to socialize. They tore out the cubicles and converted the office into a flexible, multifunctional space where employees can plop down their laptops to work wherever they want, using desks, chairs and dividers that roll on wheels. Google has office pods of four or five engineers working together, collapsible conference rooms scattered throughout the office, and communal areas to encourage communication and mingling. *Business 2.0* (November 2006)

“Trillions of dollars of commercial property owned by real-estate investment trusts, corporations and other investors around the world will soon become obsolete – and will drop in value. This looming obsolescence has nothing to do with the housing bubble. It will affect office buildings, shopping malls, warehouses and distribution centers. It threatens real-estate portfolios from Chicago to Shanghai, even as it also opens new profit-making opportunities. What’s going on? A significant real-estate market shift is gathering momentum: Green buildings – which have a less negative impact on the environment, boast lower energy consumption, and offer healthier indoor environments than ‘standard’ buildings – are going mainstream.” *Barron’s* (12/25/06) To see the complete article go to www.OfficeTimes.com/sustainableofficebldg.htm.

According to *Business Facilities* (November 2006), “U.S. universities lead the world when it comes to biotechnology transfer and commercialization. U.S. universities hold eight of the top positions, as measured by papers and citations. Nine of the top 10 patent holders are U.S. universities. MIT is first on outcome measures, which include such factors as licensing income and start ups. The University of California system ranks second with Caltech third, Stanford fourth, and University of Florida fifth. The top 10 U.S. universities account for 11.8 percent of world publications.” With 300 medical products on the market and nearly 400 more in late-stage tests, Northern California biotechnology companies are on the cusp of a commercial explosion, according to a report by the industry group BayBio. But competition from other states and countries where it is cheaper to operate, with fewer governmental regulations, could woo many local companies elsewhere, according to several experts

behind the report unveiled earlier this week. “We are starting to see part of a brain drain of Bay Area biotechnology talent heading to Singapore, China, India and other nations,” warned Daniel Perez, a BayBio board member. *Contra Costa Times* (12/8/06) “The Bay Area life sciences industry is stronger than ever, adding 6,000 jobs in 2006, according to a new report. And the growth is expected to continue next year. Most of the chief executives surveyed for the report said they expect to increase their staffs by at least 10 percent in the next year ... Currently, there are 900 life science companies in the Bay Area with a total of 90,000 employees and more than 6 billion in payroll. ‘There’s no other place in the world where you can find that many employees all within one and a half-hours of each other’ said Perez. ‘If you want to go into biotech there’s no better place in the world than right here.’” *Contra Costa Times* (1/6/07)

“Almost three years ago, Scott Kirwin was *Wired*’s upset programmer. Tossed from his job and raging against globalization, he had launched the Information Technology Professionals Association of America to lobby against offshored work and imported workers. In June, he shuttered ITPAA. I didn’t view outsourcing as the big threat it was, he says. What changed? Well, Kirwin found better work as an analyst and software architect. And he noticed that the talents that make him valuable – open-mindedness, a willingness to take risks, flashes of ingenuity – couldn’t be reduced to a spec sheet and emailed to Hyderabad. Outsourcing isn’t going away, he says. But in the end, America may be stronger for it.” *Wired* (December 2006)

Deals & Rumors: Let’s start with **Martinez**, where I helped sell a 15,000 sf office building at 2870 Howe Road to the Contra Costa Housing Authority; in **Concord** I represented Entrix in a 22,000 sf office lease at 2300 Clayton and in **Walnut Creek**, Securitas will be relocating to 18,000 sf at 401 Lennon Lane; Chapman College leased 18,000 sf at 2950 Buskirk and Chevron may be subleasing 38,000 sf at 1277 Treat Blvd. Farther down the I-680, **San Ramon** was very active, with Chevron leasing 106,000 sf at Bishop Ranch’s 6121 Bollinger Canyon Road; CNP will be moving up from Pleasanton to 40,000 sf at Bishop Ranch 7; AccountNow took 25,000 sf at Bishop Ranch 3; Innovative Claims signed for 12,000 sf at Bishop Ranch 6; Cognos leased 12,000 sf at Bishop Ranch 8; BenefitStreet took 42,000 sf at Bishop Ranch 15 and CSAA is rumored to be looking at 150,000 sf in Bishop Ranch. Over in **Emeryville**, Big Fix expanded to 30,000 sf at 1460 64th Street. In **Oakland**, Dreyer’s Grand Ice Cream scooped up 28,000 sf at 1111 Broadway. In **Fremont**, AC Nielsen leased 13,000 sf at 39141 Civic Center Plaza. Up in **Petaluma**, Raydiance took 17,000 sf at 2199 S. McDowell Blvd. In **Novato**, BioMarin Pharmaceutical leased 85,000 sf at 300 Bel Marin Keys Blvd. In **San Francisco**, Farallon renewed and expanded to 63,000 sf and Offit Hall did the same for 42,000 sf, both leases at Civic Maritime Plaza; Aetna Insurance leased 15,000 sf at One Front St.; Smith Group took 35,000 sf at 301 Battery St.; Pay By Touch signed a major 93,000 sf lease at 560 Mission St.; Pices, Inc. took 42,000 sf at One Maritime Plaza; Regent Business Centers leased 27,000 sf at 315 Montgomery St.; California Pacific Medical Center expanded by 19,000 sf and Powerset signed for 18,000 sf, both transactions at 475 Brennan St.; Microsoft is rumored to be looking at 75,000 sf at 835 Market St.; Dwell Magazine leased 19,000 sf at 40 Gild Street; Google subleased 210,000 sf at 345 Spear St., and Babcock & Brown is reportedly out for 150,000 sf. In **Daly City**, Genesys expanded by 140,000 sf at 2001 Junipero Serra Blvd. In **Foster City**, Rearden Commerce leased 42,000 sf at 1051 E. Hillsdale Blvd. and in **San Mateo**, Ingram Networks took 26,000 sf at 350 Convention Way. Eidos Interactive leased 62,000 sf at 1300 Seaport Blvd., and Support Soft Inc. took 37,000 sf at 1900 Seaport Blvd., both projects in **Redwood City**, and New Bay Media will be taking 18,000 sf at 1111 Bayhill Drive in **San Bruno**.

“The East Bay, including the Tri-Valley area, will see a significant change in both the age and ethnicity of its population over the next decade. The Tri-Valley shows the largest growth in the county through the next decade, with Pleasanton, Dublin and Livermore all expected to see double-digit population jumps. Dublin is expected to see a 39 percent increase in population by 2016, Pleasanton a 14 percent increase, and Livermore’s population is anticipated to rise 12 percent.” *The Tri-Valley Herald* (12/5/06). “The Bay Area’s population will rise by about 2 million people over the next 30 years, with the latest increases in San Jose, San Francisco and Oakland ... Regional planners who wrote the report predicted 1.5 million new jobs will be created in the Bay Area between 2000 and 2035.” *San Francisco Chronicle* (12/15/06)

““The Bay Area is benefiting from a resurgence in Silicon Valley, which has improved the office market there and also had a spillover affect in San Francisco, where accountants, lawyers and other professionals are taking more space because of demand from clients in the South Bay,” Kate Emerson, vice president at JPMorgan Chase & Co. said.” *San Francisco Chronicle* (1/16/07), which also reported, “Flocks of MBA students from East Coast Schools headed west this month, hoping to land jobs in the beating heart of the tech world. This year, many said, the uptick in the economy has given them new confidence that their trek will result in multiple offers as companies vie for good candidates. It’s quite a turnaround from just a few years ago, after the dot-com bust” ... and this time our companies are actually making big cash profits, not just dot-com “market share.”

“For the second consecutive year, the Saint Index, a survey commissioned by the Saint Consulting Group, found that Americans strongly oppose real estate development projects. In fact, twice as many continue to oppose development as support it. According to Saint Consulting, 73 percent of Americans oppose new development in their communities and 70 percent of Americans would use tax dollars to keep land undeveloped.” *California Real Estate Journal* (12/15/06) Great, pull up the drawbridge, we’ve got ours, now everyone else please go away ...

I was reflecting back on all the different crises our office and commercial buildings have faced during the past 30 years. Remember the asbestos era, when billions of dollars were spent to remove office asbestos even though there were no documented cases of an office worker getting asbestosis? We had the Unreinforced Masonry and seismic upgrade era, affecting mostly older properties in the West Coast. The underground tank syndrome caused thousands of property owners major headaches in having to research, excavate (sometimes right through building cement floors) and remove old underground gas tanks, particularly if the building sat on a former gas station site. We had rolling blackouts, thanks in part to Enron, and power-grid supply manipulation which caused offices and factories to sometimes shut down and send their workers home for lack of power. We had (and still have) ADA, a well-intentioned requirement to make buildings and facilities accessible to all, but then it seemed every five years the codes changed and what could accommodate wheelchair access had to be totally redone, sometimes at substantial landlord expense. We had a property insurance crisis, where it was at times almost impossible to secure commercial insurance, and then with 9/11 we had terrorist insurance issues, affecting properties within blocks of “signature” high-rises; potential terrorist targets. We had the “freon” era which made almost all existing HVAC systems obsolete until replacement, environmentally safer fluids could be used. After 9/11 we also had the whole security and safety issues. Do building coolers have to be secured so terrorists can’t access the ventilation systems with dangerous chemicals? Were we going to install retina-scan and x-ray machines in each

lobby? How do we put huge concrete barriers around the building exterior to prevent bomb trucks yet still retain an aesthetic appearance? Now we have the “Green Revolution,” or BEST (Buildings Environmentally Sustainable Techniques). Recyclable materials, lower operating costs, less wear and tear on Mother Earth, and what will this do to everything not BEST?

HP has a new cooling technology that it says can slash a data center business customer’s energy costs by up to 45 percent. The system uses sensors and a software program to control the temperatures in specific areas of a data center. Instead of blasting cool air all over the place based on a pre-set temperature, the HP system allows air conditioners to regulate the cold air it pumps into a room depending on the needs of individual computers. *San Francisco Chronicle* (12/29/06)

The current buzzword for the office industry is “Green” – just recently I have seen a barrage of editorials, articles, and new green construction announcements. *Buildings* (November 2006), “The Green (R)evolution?” One of the featured articles on Best Practices in Sustainability ... “Along with the proliferation of green buildings comes the question: ‘How do building professionals measure the success of a green building?’ Of course, rating systems (such as LEED) measure how green the building is, but Platinum, Gold and Silver don’t reveal how the building performs on a daily basis. Andrew Shapiro, Founder and CEO at New York City-based GreenOrder, a business strategy and marketing firm that helps companies align environmental and energy leadership with business objectives, points to quantitative research that shows greater worker productivity, less absenteeism, higher job satisfaction and even higher sales in retail locations as benefits to occupants of green buildings. But, what do the occupants – these who work in the building – have to say about daylighting, thermal comfort, and energy efficiency? Do they see the results of working in a green building? The Center for the Built Environment (CBE) at the University of California, Berkeley has created a survey that measures occupant perception of indoor environmental quality, gauging satisfaction levels and self-reported productivity.” *Buildings* (November 2006) “Paul Twardowski, Hines’ Vice President in San Diego, said the private investment, development and management firm has made LEED certification a priority for its new construction going forward. ‘This is a direction we feel office development in general is going. In a few years, it will be a disadvantage not to have LEED certification.’ Twardowski said.” *California Real Estate Journal* (11/13/06). And in the December 2006 *Real Estate Forum* editorial by Publisher Michael Desiato, titled, “Green Is Good,” “An ever-increasing number of commercial real estate owners and developers are recognizing that sustainable projects are both smart business and environmentally responsible. In fact, industry estimates put the near-term growth rate for green development at more than 50 percent. Companies such as Bank of America, Genzyme, IBM and Toyota in addition to an expanding number of home buildings, retailers and healthcare institutions are expected to bring green buildings into the mainstream over the next five to ten years.” And according to *The San Francisco Chronicle* (1/6/07), “Google intends to go green at its planned offices at NASA Ames Research Center, an ambitious complex that could encompass up to 1 million square feet of office space.”

“Flexible workspaces are an outgrowth of the technological age. Video conferencing, web meetings, laptops and hand-held wireless devices have enabled employees to work remotely. Richard Kadzis, director of special projects for CoreNet Global, notes that a Gallup Survey commissioned by the organization as part of its Corporate Real Estate 2010 initiative found that over the next five years, there will be at least a 20 percent increase in mobility and working remotely. Kadzis expects that the

decline in (office) demand may reach as high as 20 percent over the next five to seven years ... Take Hewlett-Packard, for instance. Through a series of utilization studies, HP found that only about 35 percent of its employees are actually at their desks. The company concluded that its 65 million sf of office space around the world was being significantly underutilized. Armed with the results of the survey, the company put forth its HP workplace plan to reduce occupancy costs by \$200 million by fiscal year 2010 through such measures as consolidating into fewer sites; pushing space efficiencies through greater mobility; and optimizing costs by driving down lease rates and outsourced service contracts.” *Real Estate Forum* (December 2006)

Outsourcing 2007: “The basic concept of outsourcing is that companies want to specialize in what they do best, and find another source for all the other stuff. For example, Bay Area companies like Cisco and HP specialize in designing next generation technology and are perfectly willing to have someone else assemble the final product somewhere else. The economics of outsourcing is simple. If you don’t find a place to make your products cheaply someone else will and they’ll put you out of business. U.S. technology firms that succeed are those that can balance outsourced manufacturing with in-house product development and product knowledge.” *San Francisco Chronicle* (1/14/07). “Network equipment maker Cisco Systems will set up a center in India to support all aspects of its worldwide operations, the company’s chief executive said Wednesday. The latest moves, including a plan to triple its workforce in India to 6,000 employees in the next three to five years, will help Cisco sustain the momentum of its business not just in India but in markets worldwide.” *Contra Costa Times* (12/7/06) “Infosys is the India success story in microcosm ... it is more than a software and services outsourcing company. It planned to hire 25,000 employees this year. If you have downloaded music from the internet chances are you used software written by Infosys engineers. The company has designed part of the wing of the huge Airbus A380 and is helping to create the entertainment system for Boeing’s new 787 Dreamliner. It produces code for the world’s elite companies, from Goldman Sachs to Apple Computer and Cisco Systems. At the company’s 80-acre Bangalore headquarters, teams of thousands of employees work in 47 steel-and-glass offices – a corporate oasis a world away from the traffic-clogged streets and pockets of poverty just outside the company’s gates. The workers ride bicycles along pristine paths. They meander past the new gyms, the putting green and the paddleboat pond.” *Contra Costa Times* (12/5/06)

Office building security update: Electronic ID cards, surveillance cameras and metal detectors are fixtures in high-rise office buildings, but experts say with thousands whizzing through the revolving doors each day, it’s impossible to guarantee workers’ safety ... security for high-rises is still a tricky balance of protecting workers and doing it without choking off commerce ... Two of the biggest security improvements since Sept. 11 – an increased partnership between private security and local law enforcement and well-researched evacuation plans – don’t have anything to do with technology, said Ron Vukas, executive vice president of the Building Owners and Management Association Chicago, which represents more than 90 percent of commercial properties in the city. The cost of protecting high-rises varies by property, depending on tenants, whether security is contracted out where the building is located and other factors. Still it’s impossible to prepare for every scenario. “Since 9/11 all buildings have increased security.” Vukas said. “But ... when someone is willing to give up their own life to get at someone else, I don’t know how you stop that.” *San Francisco Chronicle* (12/17/06)

Jordan, our 9-year old son, and Madison, our 4-year old daughter, had a terrific past few months. I took the kids up to Lake Tahoe during the holidays and we were fortunate to ski in the two feet of fresh powder before the “big melt” of January. Then the first week of January we went to Cancun, with so many amazing adventures like Tulom, jumping off a cliff 20 feet into a deep swimming hole, and driving a small speedboat through a jungle waterway. By the time you read this the kids will be skiing at Taos, New Mexico, hopefully with a decent snow level at the 9,500 foot base and 12,000 foot top of the chair lift. Jordan had little league tryouts a few weeks ago so spring must be just around the corner! To see their adventures go to www.OfficeTimes.com/JMFeb2007.htm.

Stay warm, think green, and call me if I can be of assistance in any way.

Thank you!

Sincerely,

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